S&P Global Ratings

RatingsDirect®

Georgia; General Obligation; General Obligation Equivalent Security

Primary Credit Analyst:
Timothy W Little, New York + 1 (312) 233-7052; timothy.little@spglobal.com

Secondary Contact:
Thomas J Zemetis, New York + 1 (212) 438 1172; thomas.zemetis@spglobal.com

Table Of Contents

Georgia; General Obligation; General Obligation Equivalent Security

Credit Profile		
US$636.255 mil GO bnds ser 2019A due 07/01/2039		
Long Term Rating	AAA/Stable	New
US$278.55 mil GO bnds fed taxable ser 2019B due 07/01/2039		
Long Term Rating	AAA/Stable	New
US$36.1 mil GO rfdg bnds ser 2019C due 07/01/2022		
Long Term Rating	AAA/Stable	New
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Georgia's general obligation (GO) series 2019A, 2019B (taxable) and 2019C refunding bonds. In addition, we affirmed our 'AAA' long-term rating on the state's GO debt outstanding. The outlook is stable.

Georgia's full faith, credit, and taxing power secure the bonds. The proceeds of the 2019A and B bonds (including net original issue premium) are expected to fund up to approximately $1 billion in project authorizations. Primary uses include $368.5 million for higher education projects, $199.5 million to finance grants to county and independent school systems for educational facilities and equipment, $150 million for the state's election voting system, and $101.9 million for public safety projects. The series 2019C proceeds will refund all or a portion of various maturities of the state's outstanding series 2009E and 2009I GO bonds.

The 'AAA' rating reflects our view of the state's:

- Well-diversified and broad-based economic growth that is outpacing that of the nation;
- Strong financial monitoring and oversight with a history of budget adjustments, mainly through expenditure reductions, to restore fiscal balance;
- Additional flexibility provided by continued growth in the revenue shortfall reserve (RSR);
- Moderate debt position bolstered by rapid amortization supported by proactive management of long-term liabilities through full funding of the state's portion of pension contributions and the creation of other postemployment benefit (OPEB) fund reserves.

Georgia's credit fundamentals remain strong, anchored by continued economic growth. The state's employment base is well diversified, although geographically concentrated around the Atlanta metropolitan statistical area (MSA). The state's warm climate, low cost of living, tax structure, and transportation network make it attractive to employers. Georgia is home to several national headquarters, including Coca-Cola, UPS, Home Depot, Delta Air Lines, and

Georgia-Pacific. Population growth has been strong relative to the U.S., and its age-dependent population is in line with U.S. levels. The state has a strong transportation infrastructure, including Atlanta Hartsfield-Jackson Airport (the world's busiest), rail access, several major arteries (I-75, I-85, I-95, and I-20), and the ports of Savannah and Brunswick.

Georgia has experienced strong population growth with a 9.3% increase over 10 years to 10.5 million in 2018, with growth above the U.S. average annually. In addition, it benefits from a slightly younger population with an age dependency ratio of 60.1 (2017) versus a slightly higher 61.3 for the U.S. With the solid population growth, the state's wealth and income indices have modestly declined on a per capita basis but have largely grown nominally. In 2018, gross state product (GSP) and personal income per capita were 89% and 85% of the national level, respectively, versus 2006, when they were 94% and 89% of the U.S. We expect ongoing improvement in the state's wealth metrics as population growth continues as a result of healthy and diverse employment opportunities.

Strong economic growth has resulted in revenue growth and building of reserves. The state ended fiscal 2018 with net collections increasing 4.5% over the prior year while the amended budget was developed on estimates of 2.7%, in line with the state's history of conservative assumptions. The growth in net taxes compared well with overall general fund receipts, up 4.6% over the prior year while the budget assumed 2.9% growth. As a result, the state was able to add approximately $258.5 million to the RSR, increasing its balance to $2.8 billion, or 10.4% of general fund revenues on a modified accrual basis for fiscal year 2018. According to Georgia statutes, excess revenue collections of up to 4% (but no greater than 15%) must be set aside in the RSR with up to 1% of the net revenue of the preceding year available for funding increased grade K-12 educational needs in the midyear adjustment process.

The governor signed the amended fiscal 2019 budget in March with no vetoes. It assumed a 4.1% increase in net revenue collections over fiscal 2018 and a 4.1% increase in tax revenues. While the amended budget made minimal changes, it primarily met growing needs for education and health and human services. Of the $706.5 million in additional revenue over the enacted budget, $270.8 million of went toward disaster response and economic development efforts in counties affected by Hurricane Michael with additional revenues toward education and health and human services. Notably, $88.9 million went toward increasing primary school enrollment, $69.4 million for school security grants, and $50.9 million for Indigent Care Trust Fund and Medicaid. Overall, given this revenue trend and the state's management practices, it is our opinion the state is likely to end the year with a surplus and further increase the balance in its RSR.

The adopted fiscal 2020 budget assumes 3.2% net revenue growth over the 2019 amended budget, including 3.5% in expected tax growth. Expenditure priorities included $532.3 million in additional funds for the Quality Basic Education (QBE) program to provide a $3,000 increase to the state base salary schedule for certified teachers and employees and a 2% increase for non-certificated employees. In addition, the state added $133.2 million for primary education enrollment growth of 0.05%. An additional $165 million was added for Medicaid services (Georgia is not an expansion state).

In our view, the state's debt burden is moderate and will remain so despite future debt plans and potential use of public-private partnerships to fund transportation projects.

The state's debt and liability remains low to moderate. Based on current revenue, management expects to be within its

7% debt affordability model limitations for debt service as a percentage of prior-year receipts through 2023, including the current transaction and planned authorizations of $1.2 billion annually in 2020 through 2023. We calculate tax-supported debt per capita of $903 and tax-supported debt to personal income of 2%. The states has no significant debt plans and given its rapid amortization, growth in population and incomes, we expect these ratios to continue to see slight moderation over time. Debt service has also been moderating in recent years and was a moderate 6% of expenditures in 2018, down from nearly 7% three years ago.

The state has two major pension plans: the Teachers Retirement System (TRS) and the Employees' Retirement System (ERS), which are funded at 80.27% and 76.68%, respectively, based on Governmental Accounting Standards Board (GASB) standards. Georgia has fully funded the actuarially determined contribution (ADC) for each plan the past 10 years. The state's total net pension liability represented $688 per capita and 1.5% of personal income for fiscal 2018.

As plan sponsor, the state reports the OPEB liability for both state employees and school personnel. However, the state's proportionate share of the school plan is only 0.6%. The combined OPEB unfunded liability attributable to the state was $8.1 billion based on reported proportionate shares for each plan. The primary portion of the unfunded liability is attributable to state ($3.8 billion) and BOR ($4.2 billion) plan participants and make up 98% of the unfunded liability.

While both plans are funded on a pay-as-you-go-basis, the State Health Benefit Plan may transfer funds exceeding Incurred but Not Reported (IBNR) liability plus a 10% contingency reserve to the OPEB trust funds each year at fiscal year-end. The amended budgets the past three years included additional funds for those payments. Funding ratios per GASB reporting requirements were 31.5% for the state OPEB fund, 2.9% for the school OPEB fund, and 1.7% for the BOR plan.

Georgia's GO bonds are eligible to be rated above the sovereign because we believe the state can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), U.S. states are considered to have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable, with significant state autonomy and flexibility demonstrated by serial bond amortization as well as independent treasury management.

Based on the analytic factors evaluated for Georgia, on a four-point scale of '1.0' (as the strongest) to '4.0' (as the weakest), S&P Global Ratings has assigned a composite score of '1.5' to the state.

Outlook

The stable outlook reflects Georgia's prudent fiscal management since the last recession that has led to sizable reserve increases during a prolonged economic expansion. We expect the state to closely monitor revenue and modify expenditures through its normal midyear budget adjustment process in December and January to adjust for unforeseen economic events.

We expect the state's economy to grow faster than that of the U.S., consistent with credit conditions across the

Southeast. Further economic growth will support revenue grains, but the state may also face increasing education spending pressures as its population continues to grow. While unlikely over the near term, should Georgia experience a structural imbalance or management reverse its position to maintain its RSR balances or use reserves to cover annual operating expenditures, we could lower the rating.

Governmental Framework

The state has a governmental framework that we consider strong. In formulating the budget, the governor is constitutionally required to submit a balanced budget recommendation to the legislature that takes into account available reserves and expected revenue. Georgia has historically based its revenue estimates on an independent recommendation from the state's chief economist to the governor. The state legislature is unable to change the governor's official revenue estimates and must adopt a balanced budget. Once a budget is adopted, a six-month revision occurs when the governor submits an amended budget to the legislature with adjustments for revenue projections and grade K-12 education spending to reflect actual enrollment. The state cannot carry over deficits from one year to the next. Georgia enjoys flexibility to set and modify tax rates, fees, and timing of refunds and exemptions, and needs only a majority vote of the legislature to pass rate adjustments or new taxes.

An amendment to the Georgia State Constitution was approved on November 2014, prohibiting the General Assembly from increasing the maximum marginal rate of the state income tax above the 6% rate in effect on Jan. 1, 2015. Although the state has not raised its rate in the past 30 years, we view this constitutional amendment as effectively reducing its revenue flexibility. We recognize there is no effect on the projected state income tax revenue. Officials report that they could examine other areas of the tax code to offset the rate cap, possibly reviewing how the state treats deductions.

Georgia has used several mechanisms to control its expenditures and manage its liquidity. The governor's authority includes a request to state agencies to reserve appropriations he believes are necessary for budget reductions and to recommend such reductions to the General Assembly at its next session. The state can also delay disbursements, as it did in fiscal 2009 with the Homeowner Tax Relief Grant, or withhold a portion of its appropriation allotments to its agencies, as it did in fiscal 2010. The Office of Planning and Budget may adjust the timing of appropriations disbursements, and currently releases funds monthly to agencies. Georgia's chief economist monitors revenue results, and updates revenue forecasts periodically. If revenue performance and updated estimates warrant, the economist informs the budget director that additional budget-balancing steps may be appropriate. The state has recommended and the General Assembly has made across-the-board cuts in previous years with the actual level of cuts varying from year to year. Georgia tends to make smaller cuts to education funding but has the legal authority to implement equal cuts to all of its agencies. Historically and if necessary, the governor has given its agencies instructions on cost-control measures to institute at the beginning of the year.

The state enjoys a high degree of legal flexibility to issue debt for a wide variety of purposes, but debt service for current and proposed GO and guaranteed debt may not exceed 10% of prior-year receipts. GO debt service is paid out of Georgia's GO debt sinking fund and, if these funds are insufficient, from first money received by the state's general fund. To incur guaranteed revenue debt, the General Assembly determines whether the debt is self-supporting and appropriates an amount equal to maximum annual debt service (MADS) to a common reserve fund. The guaranteed revenue debt common reserve fund, if tapped to pay debt service as a result of a revenue shortfall, is replenished by the general fund within 10 days of the start of any fiscal year.

Georgia is not a voter-initiative state and maintains significant flexibility to control and limit disbursements to local government units. The government's level of assistance to local governments is limited mainly to education and is highly flexible. Decisions to apply a lower level of expenditures to education are not due to statutory or constitutional funding requirements but rather are determined by policy.

On a four-point scale on which '1' is strongest, we have assigned a score of '1.1' to Georgia's governmental framework.

Financial Management

Georgia's budget management framework is good, in our view. The executive branch has broad powers to adjust appropriations, and has a track record of making politically difficult revenue and expenditure decisions to restore balance during the fiscal year. Throughout the recession, the governor withheld a percentage of appropriation allotments from its agencies to reduce overall expenditures to align them with projected revenue. The state has also raised taxes and fees. Deficits are not carried forward, and gap-closing solutions appear to be generally focused on structural budget balance.

Financial management assessment: Strong

We consider Georgia's financial management practices strong. A score of strong indicates that financial management practices are well embedded and likely sustainable. In formulating its budget, Georgia has historically based its revenue estimates on an independent recommendation from the state's chief economist to the governor. The state legislature cannot change the governor's official revenue estimates. Once enacted, the state budget is monitored monthly for both revenue and expenditures. The state has an RSR that acts as a rainy day fund, established by statute, which cannot exceed 15% of the net revenue of the preceding fiscal year. The reserve fund has increased annually since 2009 and the legislature raised the maximum allowable reserve to 15%. Furthermore, the governor may release for appropriation any amount in excess of 4% of net revenue of the prior fiscal year, and the General Assembly may use an amount equal to 1% prior-year net receipts for the grade K-12 midyear adjustment, even if reserves are below 4%. The state forecasts revenue and expenditures as part of its long-term financial planning. Georgia has a formal debt management policy measured by key indices, including debt service against revenue for all GO and guaranteed debt, debt to personal income, and debt per capita. The state formulates a five-year capital plan that identifies major capital areas but provides funding annually.

On a four-point scale on which '1' is strongest, we have assigned a score of '1.5' to Georgia's financial management.

Economy

Georgia's employment base is well diversified, although geographically concentrated around the Atlanta MSA. The state's warm climate, low cost of living, tax structure, and transportation network make it attractive to employers.

Georgia is home to several national headquarters, including Coca-Cola, UPS, Home Depot, Delta Air Lines, and Georgia-Pacific. Population growth has been strong relative to the U.S., and its age-dependent population is in line with U.S. levels. The state has a strong transportation infrastructure, including Atlanta Hartsfield-Jackson Airport (the world's busiest), rail access, several major arteries (I-75, I-85, and I-20), and the ports of Savannah and Brunswick.

A significant development in the City of Atlanta is a $5 billion proposal to develop "The Gultch," a 40-acre site in the downtown area. The project was approved by the City Council in November and includes the construction of new offices, hotels, retail space, and homes, aimed at strengthening Atlanta's ability to attract new businesses and residents. In about a decade, the renovated area should provide an additional boost to economic activity in the Atlanta metro, as more people typically lead to increased demand for goods and services.

Georgia has experienced strong population growth with a 9.3% increase over 10 years to 10.5 million in 2018, with growth above the U.S. average annually. In addition, it benefits from a slightly younger population with an age dependency ratio of 60.1 (2017) versus a slightly higher 61.3 for the U.S. With the solid population growth, the state's wealth and income indices have modestly declined on a per capita basis but have largely grown nominally. In 2018, gross state product (GSP) and personal income per capita were 89% and 85% of the national level, respectively, versus 2006 when they were 94% and 89% of the U.S. We expect ongoing improvement in the state's wealth metrics as population growth continues as a result of healthy and diverse employment opportunities.

The state's economic growth remains strong, and IHS reports that Georgia's total payrolls expected to rise 1.7% year over year between the fourth quarter of 2018 and the fourth quarter of 2019. Population gains will support the state's economic activity in the medium term as the state's population is forecast to rise by an average 0.9% annually between 2019 and 2023, outpacing the national average of 0.7%.

While the national economic expansion is expected to subside gradually, annual employment growth will remain ahead of most states, averaging 1.2% through 2022. Over the medium and long term, we believe that Georgia's low cost of living, strong transportation network, weather, and favorable business costs are likely to continue attracting business investment and jobs. Positive job growth trends should continue to bolster income tax and sales tax receipts, which together contribute approximately 75% of general fund revenue.

The Port of Savannah continues to report solid growth even as national port activity slows. Savannah is now the fourth-busiest terminal in the country, with the largest fleet (23) of ship-to-shore cranes at a single facility in the U.S. The port is also the first major container terminal for ships going through the Panama Canal to the Eastern seaboard contributing to growth in import warehouses in the area. Further deepening and expansion of the port is ongoing that will support the construction sector and strengthen the area's specialization in transportation and warehousing-related services.

Geographically, most major metropolitan areas are experiencing growth. Atlanta is Georgia's largest MSA and accounts for close to 60% of employment in the state. Despite home sales rising, some indicators point to a slowing recovery with housing starts flattening and price increases moderating. Housing starts averaged 54,000 annualized units in 2018, improving from the 34,000 annualized units five years earlier. However, housing starts remain far below the state's pre-recession peak of 109,000 achieved in 2005. Despite the forecast on housing in the state, according to the Federal Housing Finance Agency's purchase-only index, prices in the state rose 8.2% year over year in the fourth quarter of 2018, compared with 5.7% nationally, reflecting the activity in the Atlanta market.

On a four-point scale on which '1' is strongest, we have assigned a score of 1.6' to Georgia's economy.

Budgetary Performance

According to Georgia statutes, excess revenue collections of up to 4% (but no greater than 15%) must be set aside in the RSR with up to 1% of the net revenue of the preceding year available for funding increased grade K-12 educational needs in the midyear adjustment process. Funds in the RSR in excess of 4% of the previous year's net revenue may be appropriated on the governor's recommendation. Historically, reserves were funded during good economic times and depleted during downturns, consistent with the state's strong financial management practices noted previously. In the past 20 years, the state's net RSR balance has passed its prior peak of $1.5 billion (2007) to $2.6 billion in 2018. The net RSR balance reflects midyear adjustments in the subsequent fiscal year. Based on revenue estimates through May 2019, an additional contribution to the RSR is expected at the end of the fiscal year.

The state treasury monitors cash balances daily and reports to and works with the state economist and Office of Planning and Budget to review monthly cash-flow projections and expected allotments. Georgia can withhold appropriation allotments and increase processing times for tax refunds to better manage its liquidity. The state may use interfund borrowing to control its liquidity, or it can also borrow externally up to 1% of prior-year receipts, but hasn't yet needed to take either of these actions. Any external cash-flow borrowing must be repaid within the same fiscal year. Historically, the state has preferred to implement spending-reduction plans and monthly allotment releases to better manage its cash flow.

Georgia's revenue is diverse, with sales tax and personal income tax each contributing more than 15% of revenue. In addition, the state has significant flexibility to raise revenue with a simple majority vote and can raise taxes and fees to close budget gaps. Historically, Georgia has relied on reserves and expenditure cuts prior to implementing revenue adjustments. It has the legal ability to make across-the-board cuts to the budget through withholding of appropriations. During the most recent recession, the state asked agency heads to identify service-level reductions for each year and implemented these cuts based on need. Although Georgia typically reduces appropriations across the board to all agencies, reductions to education tend to be lower than for other areas of the budget, but this is a policy decision made on a case-by-case basis, not a statutory limitation.

Audited fiscal 2018

The state ended fiscal 2018 with net collections increasing 4.5% over the prior year while the amended budget was developed on estimates of 2.7%, in line with the state's history of conservative assumptions. Of net tax receipts for the year, 51 % was from personal income taxes and 26% from sales and use taxes. The growth in net taxes compared well with overall general fund receipts, up 4.6% over the prior year while the budget assumed 2.9% growth. As a result, the state was able to add approximately $258.5 million to the RSR, increasing its balance to $2.8 billion, or 10.4% of general fund revenues on a modified accrual basis.

Amended fiscal 2019 budget

The governor signed the amended fiscal 2019 budget in March with no vetoes. It assumed a 4.1% increase in net revenue collections over fiscal 2018 and a 4.1% increase in tax revenues. While the amended budget made minimal changes, it primarily met growing needs for education and health and human services. Of the $706.5 million in additional revenue over the enacted budget, $270.8 million of went toward disaster response and economic development efforts in counties affected by Hurricane Michael with additional revenues toward education and health and human services. Notably, $88.9 million went toward increasing primary school enrollment, $69.4 million for school security grants, and $50.9 million for Indigent Care Trust Fund and Medicaid.

April 2019 net tax collections totaled $2.7 billion, a 24.8% growth over the same month last year. This included a 40% increase in individual income tax receipts. The increase in personal income tax receipts is not uncommon following the 2017 Tax Cuts and Jobs Act that resulted in a change in taxpayer behavior. Many states this year experienced increased collections this April. Year-to-date net tax collections (as of May 31) totaled $21.1 billion, for an increase of roughly $943.3 million (or 4.7%) compared to May 2018. The state does not explicitly budget for additional contributions to the RSR and does not issue projections for future balances, but the revenue estimate is set at a level to allow the state to continue to build the fund each fiscal year. Overall, given this revenue trend and the state's management practices, it is our opinion the state is likely to end the year with a surplus and further increase the balance in its RSR.

Adopted fiscal 2020 budget

The adopted budget assumes 3.2% net revenue growth over the 2018 amended budget, including 3.5% in expected tax growth. Expenditure priorities included $532.3 million in additional funds for the Quality Basic Education (QBE) program to provide a $3,000 increase to the state base salary schedule for certified teachers and employees and a 2% increase for non-certificated employees. In addition, the state added $133.2 million for primary education enrollment growth of 0.05%. An additional $165 million was added for Medicaid services (Georgia is not an expansion state).

Under the federal Tax Cuts and Jobs Act, Georgia was expected to receive a windfall by conforming to the law, along with other provisions of the Bipartisan Budget Act and Disaster Relief Act. The estimated impact was $251.3 million in 2018, $1.0 billion in 2019, and $1.3 billion in 2020. However, the state amended its tax code, reducing the top marginal tax rate for individual and corporate income tax to 5.75% Jan. 1, 2019. Effective Jan. 1, 2020, the top tax rate is scheduled to be further reduced to 5.5%, but requires both ratification of the legislature and the governor at that time. These changes to the Georgia tax system sunset after Dec. 31, 2025, in line with the sunset of Federal tax changes. Based on these tax code revisions, additional revenue of $73.0 million in 2018, $265.0 million in 2019, and $393.0 million in 2020 is anticipated. However, the state does expect a loss of $467.0 million in 2021 and $340.0 million in 2022.

The 2015 Transportation Funding Act (HB 170) continues to provide needed funding for the state's transportation infrastructure. Total receipts under the act include $2.0 billion in 2018, an estimated $2.1 billion in the 2019 amended budget, and $2.1 billion in the adopted 2020 budget. From the new revenues the Department of Transportation is able to place a greater focus on the development and improvement of major non-interstate freight corridors throughout the state (68 freight corridor projects totaling $2.74 billion) are scheduled for the next 10 years.

On a four-point scale on which '1' is strongest, we have assigned a score of '1.3' to Georgia's budgetary performance.

Debt And Other Liabilities

In our view, the state's debt burden is moderate and will remain so despite future debt plans and potential use of public-private partnerships to fund transportation projects. GO debt service is paid out of the GO debt sinking fund and, if these funds are insufficient, from first money received by the state's general fund. To incur guaranteed revenue debt, the General Assembly determines whether the debt is self-supporting and appropriates an amount equal to MADS to a common reserve fund. The common reserve, if tapped to pay debt service as a result of a revenue shortfall, is replenished by the general fund within 10 days of the start of any fiscal year. Georgia's overall debt burden remains moderate, in our view.

Based on current revenue, management expects to be within its 7% debt affordability model limitations for debt service as a percentage of prior-year receipts through 2023, including the current transaction and planned authorizations of $1.2 billion annually in 2020 through 2023. For 2019, management projected this ratio at 5.4% of prior-year revenue (fiscal 2018) and 5.02% of current-year revenue (fiscal 2019 estimate), both below the 7.00% limitation. The state's calculation is based on available revenue; this differs from our calculation, which is based on expenditures. The 2019 GO bond authorization totals $1.2 billion, primarily for higher education and primary education projects. The authorization is typical for the state and we do not expect a material change in its debt ratios. All of the state's GO debt is now fixed rate. Debt amortization is rapid, with 73% retired within 10 years and all debt amortized within 20.

The state's debt burden remains low to moderate with tax-supported debt per capita of $903 and tax-supported debt to personal income of 2%. The states has no significant debt plans and given its rapid amortization, growth in population and incomes, we expect these ratios to continue to see slight moderation over time. Debt service has also been moderating in recent years and was a moderate 6% of expenditures in 2018, down from nearly 7% three years ago.

Although previously, the constitution would not allow the state to enter into multiyear leases, on Nov. 6, 2012, voters approved a constitutional amendment to permit multiyear leases for the BOR and the State Properties Commission (SPC). The Georgia State Financing and Investment Commission (GSFIC) determines the amount of multiyear leases the SPC and BOR may enter into annually, and authorization lapses at the end of the fiscal year if not used. Through May 31, 2019, the SPC has entered into 66 leases using approximately $449 million of commission-approved multiyear rental agreement contract value authority. There is $200 million of multiyear rental agreement contract value that the authority approved for use by SPC in fiscal 2020. Through May 31, 2019 the BOR had entered into four leases using approximately $129.2 million of commission-approved multiyear rental agreement contract value authority contingent on project completion by the project developer, which is expected to occur during fiscal 2020. By policy, GSFIC will limit annual obligation authority for multiyear leases to no more than 0.5% of prior-year Georgia state treasury receipts. Leases will be subject to the 20-year statutory limitation and may be terminated if the General Assembly fails to appropriate lease payments. However, such multiyear rental agreements are not subject to the 10% debt limitation of the state.

Pension and OPEB liabilities

The state has two major pension plans: the Teachers Retirement System (TRS) and the Employees' Retirement System (ERS), which are funded at 80.27% and 76.68%, respectively based on Governmental Accounting Standards Board (GASB) standards. Georgia has fully funded the actuarially determined contribution (ADC) for each plan the past 10 years. Since 2012, the state has cumulatively overfunded the ERS ADC by $5.9 million, including $2.1 million in fiscal 2018. Based on GASB Statement No. 68 reporting standards, the state's allocable share of the TRS and ERS net pension liability equals 16.89% and 88.42%, respectively, which represents the state's net pension liability of approximately $7.1 billion. We view the state's three-year average funded ratio as strong, at 78%. The state's total net pension liability represented $688 per capita and 1.5% of personal income for fiscal 2018.

The TRS and ERS systems use an entry age actuarial cost method as part of their funding policy with five-year market smoothing. ERS and TRS use level dollar and level percent of pay, closed amortization methods, respectively. As of the June 30, 2018 valuation, ERS had a remaining amortization of 15.3 years compared to TRS' remaining 25.6. Each plan uses a five-year asset valuation smoothing. TRS had an assumed investment rate of return of 7.25% compared to 7.3% for ERS.

The systems do not project an asset depletion date under GASB 67, which we believe is reasonable. The ratio of active members to beneficiaries equals 1.9 for TRS, significantly higher than the national median of 1.5 and 1.2 for ERS, which is only moderately below the median national and we believe it is not a weakness because the plan maintains a strong pension funded ratio, in our opinion. Georgia law requires that at least once every five years, an experience study be performed for ERS and TRS. The most recent study for ERS was completed in December 2015, covering the five-year period from July 1, 2009 through June 30, 2014, and the most recent study for TRS was completed in November 2015 covering the same period. The next five-year experience studies for TRS and ERS for the period ending June 30, 2019 are expected to be completed in the fall of 2020.

As plan sponsor, the state reports the OPEB liability for both state employees and school personnel. However, the state's proportionate share of the school plan is only 0.6%. The combined OPEB unfunded liability attributable to the state was $8.1 billion based on reported proportionate shares for each plan. The primary portion of the unfunded liability is attributable to state ($3.8 billion) and BOR ($4.2 billion) plan participants and make up 98% of the unfunded liability.

For fiscal 2018, the total amount of employer contributions to the state OPEB fund and the school OPEB fund were $501.6 million and $518.3 million, respectively, which consisted of a pay-as-you-go amount of $170 million to the state OPEB fund and $369 million to the school OPEB fund. Excess funding of $331.6 million and $149.0 million for the state and school plan, respectively, were deposited into the OPEB trust. While both plans are funded on a pay-as-you-go-basis, the State Health Benefit Plan may transfer funds exceeding Incurred but Not Reported (IBNR) liability plus a 10% contingency reserve to the OPEB trust funds each year at fiscal year-end. The amended budgets the past three years included additional funds for those payments. Funding ratios per GASB reporting requirements were 31.5% for the state OPEB fund, 2.9% for the school OPEB fund, and 1.7% for the BOR Plan. The State Employees' Assurance Department's OPEB (that provides life insurance) is overfunded by $270.6 million and had a 129.4% funded ratio as of June 30, 2018.

The state did not report a required contribution to its school or state OPEB plan, but contributed on pay-as-you-go basis along with excess funds deposited into the OPEB trust.

On a four-point scale on which '1' is strongest, we have assigned a score of '1.9' to Georgia's debt and liability profile.

Ratings Detail (As Of June 11, 2019)		
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed
Georgia State Rd & Tollway Auth, Georgia		
Georgia		
Georgia State Rd & Tollway Auth (Georgia) GO		
Long Term Rating	AAA/Stable	Affirmed